



Tax considerations for wellness programs

A wellness program is any formal or informal program designed to educate employees (and sometimes their families) about health-related issues, promote healthy lifestyles or encourage employees to make healthier choices. Wellness programs vary in design, and many employers fail to recognize that a benefit they are offering is, in fact, considered a wellness program.

Due to their broad design, wellness programs are often part of or tied to a group health plan, but this is not always the case. Typical arrangements, all of which are sponsored by the employer include:

- Carrier sponsored plans (employer has no/little control);
- Plans from third-party vendors where employers help choose from the vendor's unique and robust features;
- Internal or home-grown programs administered by a committee or the human resources department; and
- Programs that include premium differentials on health insurance.

Practical impact:

The employer is the plan sponsor. Regardless of who is administering or designing the wellness program, it is important to understand that the employer is the wellness program plan sponsor. This means that the employer, as plan sponsor, is responsible for the tax implications.

SPECIFIC EXAMPLES INCLUDE:

Carrier sponsored	Wellness program where a participant earns points to turn in for gift cards or shopping in a private marketplace for consumer good
Premium discount on monthly health insurance premiums	\$50 a month discount on health insurance premiums for being tobacco free
Casual program for all employees	Organizing a morning walk three days a week or offering employees a discounted price to purchase nutrition counseling or fitness trackers
Third-party vendor	A sophisticated program that incentivizes receiving preventive care, completing health risk screenings, and underdoing coaching for any health risks (weight, blood pressure, diabetes, etc.) Participants earn points for completing activities, and points can be redeemed for gift cards or consumer goods such as electronics or jewelry/watches.

Components of wellness programs

Wellness programs run the gamut in design and offerings, taking many forms, and not always referred to as a “wellness program.” However, the following are all wellness programs, and this is an important concept because it is necessary in determining its tax treatment. Wellness programs include:

Reimbursing fitness center or gym memberships;

Discounts on nutrition or fitness programs;

Smoking cessation programs; “coaching” for improving cholesterol, weight or blood pressure measurements;

Diabetes management programs; count-your-step and/or drink-your-water programs;

Rewards for attending health education seminars;

5k programs; and

Programs incentivizing preventive care such as childhood well visits, well women exams, mammograms, colonoscopies or vaccines.

Tax treatment of wellness programs

Wellness incentives are subject to the same federal tax provisions as all employee rewards. Unless a specific tax exemption applies, the incentive or reward is taxed at fair market value and is included in an employee's gross income and subject to payroll withholding.

Typical tax exclusions applicable to wellness programs are medical care, *de minimis* benefits, fringe benefits and on-site athletic facilities.

Some wellness program rewards, such as cash and cash equivalents, are always taxable. Cash equivalents include gift cards, "shopping dollars" or "shopping credits" at participating retailers or through a third-party marketplace hosted by a wellness vendor or insurance carrier. Gym or health club memberships (or reimbursements of memberships) are always taxable unless they qualify as an on-site athletic facility (see below) or as medical care, which is not common.

Medical care	If a wellness program offers vaccines (such as the flu shot, shingles vaccine or COVID-19 vaccine), screening for high blood pressure or blood sugar levels, this is not taxable. Wellness programs that provide a premium incentive or surcharge for participation or non-participation is also not taxed. Employer contributions to tax advantaged accounts like FSAs or HSAs as a reward for wellness program participation is not taxed. These are all examples of nontaxable medical care or nontaxable medical care expenses.
<i>De minimis</i>, (minimal) benefits	<i>De minimis</i> benefits have a value so low that accounting for it would be unreasonable or impractical. <i>De minimis</i> benefits can include pens, t-shirts or water bottles that are provided at a wellness fair. Gift cards and cash are never <i>de minimis</i> . Items like tablet computers, Bluetooth headphones and other popular consumer goods are easy to calculate a manufacturer's suggested price and should not be written off as <i>de minimis</i> .
Fringe benefits	The tax code allows employers to offer specified benefits on a tax advantaged basis called fringe benefits. Fringe benefits include company cars, education assistance programs, and qualified employee discount programs. If a wellness incentive or reward fits into a fringe benefit category it could be provided on a tax advantaged basis so long as it complied with the fringe benefit program rules and regulations.
On-site athletic facilities	If an employer has an athletic facility (gym, weight room, tennis courts, etc.) that is open only to employees (and their spouses and dependents, if applicable) that is on-site, and operated by the employer, it can be provided with no tax implications. This tax exclusion does not include gym memberships, gym reimbursements or on-site gyms that are open to other employers in the area or are operated by a third party.

Practical impact:

Employers need to work with their carrier or third-party vendor to ensure they are receiving reporting on wellness incentives that are earned. This reporting could be monthly, quarterly or annually – whatever the employer agrees to with their carrier or vendor. This information is needed both for tax reasons as well as ensuring incentives don't exceed regulatory limits, and to ensure affordability calculations are being properly considered for any tobacco cessation programs.

If an employee earns cash or a gift card for taking a health risk assessment, receiving preventive care, logging their water or food intake, participating in a walking program, refilling preventive medications in a timely manner, logging their blood glucose or any other wellness activity, that earned cash or gift card is included in the employee's gross income and is subject to payroll tax withholdings. If a carrier or vendor offers employees an opportunity to "purchase" merchandise in a private marketplace (home goods, electronics, accessories, jewelry, or other items), the same principals apply — the employer must include the value of the "purchased" items on the employee's W-2 and withhold payroll taxes.

Employers that sponsor group health plans that have a wellness program component offered by their health insurance carrier are responsible for taxing incentives earned through the carrier program. Practically speaking, employers should receive information from the carrier about each employee's earnings in order to include the incentive in their gross income and withhold appropriate payroll taxes. It is not the responsibility of the carrier to issue the individual a 1099. Similarly, if an employer contracts with a third-party wellness vendor, they should receive appropriate information from the vendor to tax any earned cash or cash equivalent incentives, or any other incentives that are not excluded under the tax code.

Discount programs

There are two types of discounts that employers might offer employees, and separate tax considerations for each.

First is a fringe benefit of an qualified employee discount for which employees may purchase goods or services their employer sells the general public at a discounted rate. A common example would be a commercial retailer offering all employees a 15 percent discount on any items they buy from the store during their term of employment. Although additional rules apply, the general rule of thumb is that discount programs of this nature that do not exceed a 20 percent discount do not have any tax consequences or considerations.

Second, if an employer negotiates a bulk discount for its employees from another retailer (for example, a discount on wearable fitness trackers), it is unlikely that this is taxable. If an employer subsidizes an employee's purchase of a retail item, that is likely to be considered taxable and checking with a tax advisor is recommended.

A "wellness program" that is NOT a wellness program

Finally, employers should be cautious of any employee benefit plans that purport to save the employer significant sums of money in payroll taxes, while providing employees with the same or greater take home pay in addition to some combination of benefits. These programs are also promoted as wellness programs and are often sold at "no cost" to the employer or employee, and all payment is made through tax savings. These programs almost always run afoul of existing IRS guidance and prohibitions regarding double dipping programs, circular wage programs, fixed indemnity programs where a wellness program provides fixed indemnity cash payments or other prohibited arrangements.